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FISCAL IMPACT STATEMENT

LS 6931 | **NOTE PREPARED:** Feb 25, 2005
BILL NUMBER: HB 1235 | **BILL AMENDED:** Feb 24, 2005

SUBJECT: Reemployment of PERF and TRF Members.

FIRST AUTHOR: Rep. Buell | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) This bill increases the exempt amount (the annual amount a retired member of the Public Employees' Retirement Fund (PERF) or the Teachers' Retirement Fund (TRF) who has not attained the Social Security normal retirement age may earn in a covered position before the member's retirement benefit stops and the member must again make contributions to the member's retirement fund) from $25,000 to $35,000. It provides that interest credited prior to July 1, 2005, in the annuity savings account of the PERF to suspended members participating in its guaranteed fund shall be treated as properly credited.

Effective Date: July 1, 2005.

Explanation of State Expenditures: (Revised) *Summary:* The specific fiscal impact will depend upon the number of TRF and PERF members affected by the newly proposed exempt amount. Based on the data and the assumptions below, the annual increase in expenditures for the TRF is estimated to range between $33,000 and $45,000 per year. The fund affected is the state General Fund. For PERF, based on current averages, very few would reach the newly established amount.

Background Information: For FY 2002, 13 TRF members had their benefits suspended because of the exempt amount provision as it currently exists. For FY 2003, the TRF had 8 members who had their benefits suspended because of the exempt amount provision. For FY 2004, the TRF had 11 members who had their benefits suspended. It is estimated that between 11 and 15 TRF members annually will have their benefits suspended. In addition, the TRF reports that there are usually a few members who must pay back benefits when it is discovered after the fact that they have exceeded the exempt amount. The temporary suspension of benefits is dependent upon reporting by local boards of education. The member's benefits are suspended once the TRF receives notification that the member has reached the exempt amount. At the beginning of the next fiscal year, the benefits are reinstated until the member again reaches the exempt amount.

The situation for PERF is similar. PERF estimates between 15 and 20 members each year have their benefits suspended.

The proposal means that more benefits will be paid out each year than at the current level. Specific data are not available on which to base an estimate. The following assumptions are used for illustrative purposes.

Teachers' Retirement Fund:

An average salary of $55,000 (the approximate average salary for active members in the 50- to 65-year age range).

An average annual pension of $18,000 (the approximate average for retirements from 1999 to 2003). This would be paid in monthly installments of $1,500 beginning July 1.

The school year (and thus the payroll period) begins September 1, two months into the fiscal year.

Based on the above, the pay for such a member would reach the current law's "exempt amount of $25,000 toward the end of January. At that point, the member would have received seven months of benefit payments; and (assuming the member continues to teach) the remaining five months of payments would be suspended. At $18,000 per year, this would mean $7,500 of forgone benefit payments to the member.

Under the proposed change, the member's pay would reach the new "exempt amount of $35,000 in early March, possibly after the member had received the 7th monthly benefit payment. The member would be ineligible for the final three month's payment for that fiscal year. At $18,000 per year, this would mean $4,500 of forgone benefit payments to the member.

The difference of $3,000 of additional benefit payments is the increase in cost to the TRF, based on this example. The annual cost is estimated to range between $33,000 and $45,000, based on the data provided by the TRF. This represents less than 0.01% of the TRF active payroll.

Public Employees' Retirement Fund:

An average salary of $29,000 (the approximate average salary for active members in the 50- to 65-year age range).

An average annual pension of $5,402 (the average for retirements from 2002 and 2003). This would be paid in monthly installments of $450 beginning July 1.

Based on the above, the pay for such a member would reach the current law's "exempt amount of $25,000 toward the end of April, assuming a fiscal year payment. At that point, the member would have received ten months of benefit payments; and (assuming the member continues to be employed) the remaining two months of payments would be suspended. At $5,402 per year, or $450 per month, this would mean $900 of forgone benefit payments to the member.

Under the proposed change, the member's pay would never reach the new "exempt amount of $35,000.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund; Public Employees' Retirement Fund.

Local Agencies Affected:

Information Sources: Brian Dunn of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498; William Christopher, Director of TRF, 317-232-3869.

Fiscal Analyst: James Sperlik, 317- 232-9866.